

EAST CENTRAL COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2006

Contents

	<u>Page</u>
Officials	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis (MD&A)	4-12
Basic Financial Statements:	<u>Exhibit</u>
Government-Wide Financial Statements:	
Statement of Net Assets	A 13
Statement of Activities	B 14
Governmental Fund Financial Statements:	
Balance Sheet	C 15
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D 16
Statement of Revenues, Expenditures and Changes in Fund Balances	E 17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F 18
Proprietary Fund Financial Statements:	
Statement of Net Assets	G 19
Statement of Revenues, Expenses and Changes in Fund Net Assets	H 20
Statement of Cash Flows	I 21
Notes to Financial Statements	22-30
Required Supplementary Information:	
Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund	31
Notes to Required Supplementary Information - Budgetary Reporting	32
Other Supplementary Information:	<u>Schedule</u>
Nonmajor Governmental Funds:	
Combining Balance Sheet	1 33
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	2 34
Schedule of Changes in Student Activity Accounts	3 35
Schedule of Changes in Revenues, Expenditures and Changes in Net Assets - Expendable Trust Funds	4 36
Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types	5 37
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	38-39
Schedule of Findings	40-41

East Central Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2005 Election)		
Steve Gendreau	President	2005
Charles Jargo	Vice President	2006
Warren Koch	Board Member	2007
Sharon Marshall	Board Member	2007
Ray Naeve	Board Member	2005

**Board of Education
(After September 2005 Election)**

Steve Gendreau	President	2008
Ray Naeve	Vice President	2008
Warren Koch	Board Member	2007
Sharon Marshall	Board Member	2007
Charles Jargo	Board Member	2006

School Officials

James House	Superintendent	2006
Sandra Hansen	Business Manager/ Board Secretary	2006
Gruhn Law Firm	Attorney	2006

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
East Central Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the East Central Community School District, Miles, Iowa as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the East Central Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

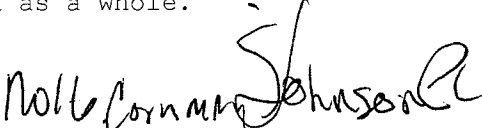
In accordance with Government Auditing Standards, we have also issued our report dated September 8, 2006 on our consideration of the East Central Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 31 and 32 are not required parts of the basic financial statements, but are supplementary information

Members American Institute & Iowa Society of Certified Public Accountants

required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise East Central Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

September 8, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

East Central Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$3,375,706 in fiscal 2005 to \$3,417,572 in fiscal 2006, while General Fund expenditures increased from \$3,214,678 in fiscal 2005 to \$3,345,660 in fiscal 2006. This resulted in an increase in the District's fund balance from \$844,852 in fiscal 2005 to \$916,949 in fiscal 2006, which was an 8.53% increase from the prior year. The increase in revenues was more than enough to offset the increase in expenditures which guaranteed the improvement in the District's General Fund balance.
- An increase in interest rates resulted in interest earnings in the General Fund alone to increase from \$24,770 in fiscal year 2005 to \$48,444 in fiscal year 2006.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of East Central Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how the governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report East Central Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which East Central Community School District acts solely as an agent or custodian for the benefit of those outside of the School District.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor Special Revenue Funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
East Central Community School District Annual Financial Report

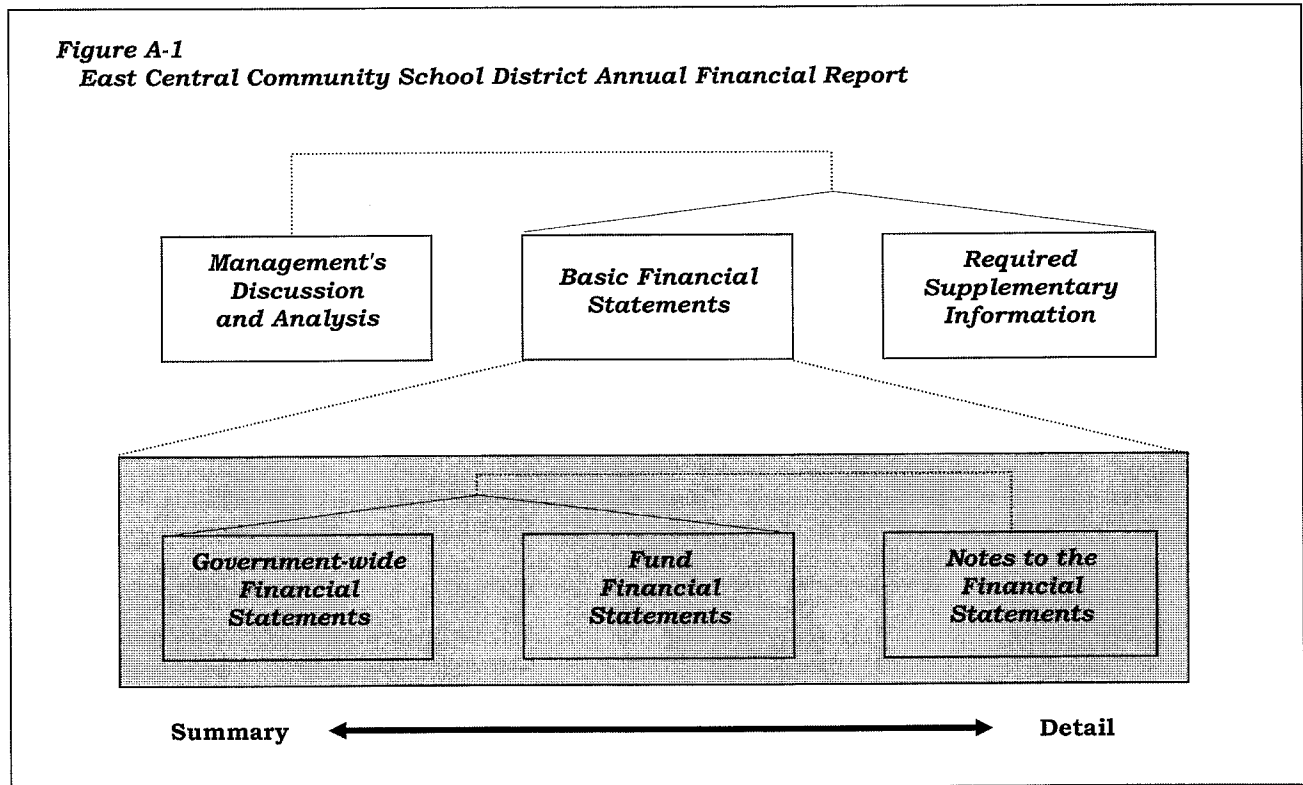


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements			
	District-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two Government-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the Government-wide statements, additional information at the bottom of the governmental funds statements explains the relationship or differences between the two statements.

The District's governmental funds include the General Fund, Special Revenue Funds and Capital Projects Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the Government-wide statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund. The District's internal service funds, one type of proprietary fund, are the same as the governmental activities, but provide more detail and additional information, such as cash flows. The District currently has one internal service funds, the Health Insurance Fund.

The required financial statements for proprietary funds include a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2006 compared to June 30, 2005.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Current and other assets	\$ 2,725,754	2,679,332	50,712	39,315	2,776,466	2,718,647	2.13%
Capital assets	643,104	625,716	10,553	11,331	653,657	637,047	2.61%
Total assets	3,368,858	3,305,048	61,265	50,646	3,430,123	3,355,694	2.22%
Other liabilities	1,608,482	1,630,761	3,637	3,054	1,612,119	1,633,815	-1.33%
Total liabilities	1,608,482	1,630,761	3,637	3,054	1,612,119	1,633,815	-1.33%
Net assets:							
Invested in capital assets, net of related debt	643,104	625,716	10,553	11,331	653,657	637,047	2.61%
Restricted	178,439	60,647	0	0	178,439	60,647	194.23%
Unrestricted	938,833	987,924	47,075	36,261	985,908	1,024,185	-3.74%
Total net assets	\$ 1,760,376	1,674,287	57,628	47,592	1,818,004	1,721,879	5.58%

The District's combined net assets increased by 5.58%, or \$96,125, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately \$117,792, or 194.23% over the prior year. This is due in part to the increases in fund balance of the Capital Projects and Activity Fund.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - decreased approximately \$38,277, or 3.74%.

Figure A-4 shows the changes in net assets for the years ended June 30, 2006 and 2005.

Figure A-4 Changes of Net Assets							
	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Revenues:							
Program revenues:							
Charges for services	\$ 235,514	246,997	86,352	89,582	321,866	336,579	-4.37%
Operating grants and contributions and restricted interest	412,578	406,771	70,387	66,157	482,965	472,928	2.12%
General revenues:							
Property tax	1,295,644	1,288,068	0	0	1,295,644	1,288,068	0.59%
Local option sales and service tax	221,709	189,380	0	0	221,709	189,380	17.07%
Unrestricted state grants	1,551,901	1,522,362	0	0	1,551,901	1,522,362	1.94%
Unrestricted investment earnings	56,665	25,096	1,782	853	58,447	25,949	125.24%
Other	31,147	0	0	0	31,147	0	100.00%
Total revenues	3,805,158	3,678,674	158,521	156,592	3,963,679	3,835,266	3.35%
Program expenses:							
Governmental activities:							
Instructional	2,367,245	2,308,087	0	0	2,367,245	2,308,087	2.56%
Support services	1,193,024	897,842	0	0	1,193,024	897,842	32.88%
Non-instructional programs	3,758	0	148,485	145,014	152,243	145,014	4.99%
Other expenses	155,227	340,155	0	0	155,227	340,155	-54.37%
Total expenses	3,719,254	3,546,084	148,485	145,014	3,867,739	3,691,098	4.79%
Excess of revenues over expenses	85,904	132,590	10,036	11,578	95,940	144,168	-33.45%
Other financing sources (uses)							
Sale of equipment	185	1,281	0	0	185	1,281	-85.56%
Loss on sale of assets	0	0	0	(315)	0	(315)	100.00%
Capital asset restatement	0	123,365	0	0	0	123,365	-100.00%
Total other financing sources (uses)	185	124,646	0	(315)	185	124,331	-99.85%
Change in net assets	86,089	257,236	10,036	11,263	96,125	268,499	-64.20%
Beginning net assets as restated (Note 8)	1,674,287	1,417,051	47,592	36,329	1,721,879	1,453,380	18.47%
Ending net assets	\$ 1,760,376	1,674,287	57,628	47,592	1,818,004	1,721,879	5.58%

In fiscal 2006, property tax and unrestricted state grants account for 74.83% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 98.88% of the revenue from business type activities.

The District's total revenues were approximately \$3.96 million of which approximately \$3.8 million was for governmental activities and \$0.16 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 3.35% increase in revenues and a 4.79% increase in expenses. Unrestricted state grants and property tax increased a combined \$37,115 to fund increases in expenditures. The increase in expenses related to increases in the negotiated salary and benefits as well as increases in expenses funded by grants received by the District.

Governmental Activities

Revenues for governmental activities were \$3,805,158 and expenses were \$3,719,254.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 2,367,245	1,841,183
Support services	1,193,024	1,193,024
Non-instructional	3,758	3,758
Other expenses	155,227	33,197
Totals	<u>\$ 3,719,254</u>	<u>3,071,162</u>

- A portion of the cost financed by users of the District's programs was \$235,514.
- The federal and state government subsidized certain programs with operating grants and contributions totaling \$412,578.
- The net cost portion of governmental activities was financed with \$1,295,644 in property tax, \$221,709 in local option sales and services tax, \$1,551,901 in unrestricted state grants, unrestricted investment earnings of \$56,665.

Business-Type Activities

The District's only business-type activity is the School Nutrition Fund. Revenues of the District's business-type activities totaled \$158,521 in 2006. Revenues of these activities were comprised of charges for services, federal and state reimbursements and investment income. Expenses of the District's business-type activities were \$148,485 in 2006.

INDIVIDUAL FUND ANALYSIS

As previously noted, the East Central Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported combined fund balances of \$1,095,388, an increase of \$66,850 above last years ending fund balances of \$1,028,538.

Governmental Fund Highlights

- In fiscal year 2005, the District received no revenue in the Management Fund. In fiscal 2006, this fund received \$33,006 to cover the costs of property insurance for the District.
- Revenues in the Capital Projects Fund increased by \$32,329 as compared to fiscal 2005. These additional revenues are beneficial to covering costs of replacing older vehicles and building or renovating District buildings.

Proprietary Fund Highlights

- School Nutrition Fund net assets increased from \$47,592 at June 30, 2005 to \$57,628 at June 30, 2006, representing an increase of 21.09%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$86,462 more than budgeted revenues, a variance of 2.23%. The most significant variance resulted from the District receiving more in local source revenues than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, expenditures in the support services function exceeded the amount budgeted by \$225,889.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested \$643,104, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See figure A-6) Depreciation expense for the year was \$102,249.

The original cost of the District's capital assets was \$3,324,542. Governmental funds account for \$3,290,392, with the remainder of \$34,150 accounted for in the Proprietary School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the machinery and equipment category. The District's net assets in machinery and equipment totaled \$185,810 at June 30, 2005, compared to \$133,204 reported at June 30, 2006. This represents a 27.13% decrease from fiscal 2005 to fiscal 2006. This decrease is due mostly to depreciation expense taken during the year.

As of June 30, 2006, the District restated capital assets. In prior years, the District was not following the years of useful life for depreciation as stated in District capitalization policy but rather the years of useful life that were stated on the appraisal company's fixed asset listing. After adjustment the net effect was a \$123,365 increase to the net assets stated at June 30, 2005.

More detailed information about the District's capital assets is presented in Note 3 to the financial statements.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Land	\$ 6,827	6,827	0	0	6,827	6,827	0.00%
Buildings	281,925	255,665	0	0	281,925	255,665	10.27%
Land Improvements	221,148	177,414	0	0	221,148	177,414	24.65%
Machinery and equipment	133,204	185,810	10,553	11,331	143,757	197,141	-27.08%
Total	\$ 643,104	625,716	10,553	11,331	653,657	637,047	2.61%

Long-Term Debt

As of June 30, 2006, no long-term debt was noted.

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The District's continued participation in the instructional support program for a period of four more years will be used to fund future General Fund expenditures.
- The rising cost of gas, diesel, and natural gas continue to be a concern for the District.
- Declining enrollment continues to be a concern to the District.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sandra Hansen, Business Manager, East Central Community School District, 439 Wilson St., P.O. Box 367, Miles, Iowa, 52064.

BASIC FINANCIAL STATEMENTS

EAST CENTRAL COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents:			
Other	\$ 1,350,752	47,327	1,398,079
Receivables			
Property tax:			
Delinquent	39,896	0	39,896
Succeeding year	1,243,918	0	1,243,918
Accounts	3,177	0	3,177
Due from other governments	88,011	0	88,011
Inventories	0	3,385	3,385
Capital assets, net of accumulated depreciation (Note 3)	643,104	10,553	653,657
TOTAL ASSETS	3,368,858	61,265	3,430,123
LIABILITIES			
Accounts payable	77,449	0	77,449
Salaries and benefits payable	287,115	2,452	289,567
Deferred revenue:			
Succeeding year property tax	1,243,918	0	1,243,918
Other	0	1,185	1,185
TOTAL LIABILITIES	1,608,482	3,637	1,612,119
NET ASSETS			
Investment in capital assets, net of related debt	643,104	10,553	653,657
Restricted for:			
Capital projects	57,547	0	57,547
Management levy	33,972	0	33,972
Physical plant and equipment levy	25,909	0	25,909
Other special revenue purposes	61,011	0	61,011
Unrestricted	938,833	47,075	985,908
TOTAL NET ASSETS	\$ 1,760,376	57,628	1,818,004

SEE NOTES TO FINANCIAL STATEMENTS.

EAST CENTRAL COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges	Contributions	Govern- mental Activities	Business- Type Activities	Total
		for Services	and Restricted Interest			
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	\$ 1,538,719	95,095	269,668	(1,173,956)	0	(1,173,956)
Special instruction	485,542	42,032	20,880	(422,630)	0	(422,630)
Other instruction	342,984	98,387	0	(244,597)	0	(244,597)
	2,367,245	235,514	290,548	(1,841,183)	0	(1,841,183)
Support services:						
Student services	97,315	0	0	(97,315)	0	(97,315)
Instructional staff services	106,526	0	0	(106,526)	0	(106,526)
Administration services	358,512	0	0	(358,512)	0	(358,512)
Operation and maintenance of plant services	481,607	0	0	(481,607)	0	(481,607)
Transportation services	149,064	0	0	(149,064)	0	(149,064)
	1,193,024	0	0	(1,193,024)	0	(1,193,024)
Non-instructional programs	3,758	0	0	(3,758)		(3,758)
Other expenditures:						
AEA flowthrough	122,030	0	122,030	0	0	0
Depreciation(unallocated)*	33,197	0	0	(33,197)	0	(33,197)
	155,227	0	122,030	(33,197)	0	(33,197)
Total governmental activities	3,719,254	235,514	412,578	(3,071,162)	0	(3,071,162)
Business-Type activities:						
Non-instructional programs:						
Nutrition services	148,485	86,352	70,387	0	8,254	8,254
Total business-type activities	148,485	86,352	70,387	0	8,254	8,254
Total	\$ 3,867,739	321,866	482,965	(3,071,162)	8,254	(3,062,908)
General Revenues:						
Property tax levied for:						
General purposes				\$ 1,266,318	0	1,266,318
Capital outlay				29,326	0	29,326
Local option sales and services				221,709	0	221,709
Unrestricted state grants				1,551,901	0	1,551,901
Unrestricted investment earnings				56,665	1,782	58,447
Gain on sale of assets				185	0	185
Other				31,147	0	31,147
Total general revenues				3,157,251	1,782	3,159,033
Change in net assets				86,089	10,036	96,125
Net assets beginning of year, as restated (Note 8)				1,674,287	47,592	1,721,879
Net assets end of year				\$ 1,760,376	57,628	1,818,004

* This amount excludes the depreciation that is included in the direct expense of various programs

SEE NOTES TO FINANCIAL STATEMENTS.

EAST CENTRAL COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General	Other Nonmajor Governmental Funds	Total
ASSETS			
Cash and pooled investments:			
Other	\$ 1,185,726	143,142	1,328,868
Receivables:			
Property tax:			
Delinquent	38,040	1,856	39,896
Succeeding year	1,132,042	111,876	1,243,918
Accounts	3,177	0	3,177
Due from other governments	38,628	49,383	88,011
TOTAL ASSETS	\$ 2,397,613	306,257	2,703,870
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 63,475	13,974	77,449
Salaries and benefits payable	285,147	1,968	287,115
Deferred revenue:			
Succeeding year property tax	1,132,042	111,876	1,243,918
Total liabilities	1,480,664	127,818	1,608,482
Fund balances:			
Unreserved:			
General	916,949	0	916,949
Capital projects	0	57,547	57,547
Management levy	0	33,972	33,972
Physical plant and equipment levy	0	25,909	25,909
Other special revenue	0	61,011	61,011
Total fund balances	916,949	178,439	1,095,388
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,397,613	306,257	2,703,870

SEE NOTES TO FINANCIAL STATEMENTS.

EAST CENTRAL COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006

Total fund balances of governmental funds (page 15) \$ 1,095,388

*Amounts reported for governmental activities in the
statement of net assets are different because:*

Capital assets used in governmental activities are not
financial resources and, therefore, are not report as
assets in in the governmental funds. 643,104

Blending of the Internal Service Funds to be reflected
on an entity-wide basis. 21,884

Net assets of governmental activites (page 13) \$ 1,760,376

SEE NOTES TO FINANCIAL STATEMENTS.

EAST CENTRAL COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	General	Other Nonmajor Governmental Funds	Total
REVENUES:			
Local sources:			
Local tax	\$ 1,236,375	280,978	1,517,353
Tuition	137,127	0	137,127
Other	83,663	106,608	190,271
State sources	1,826,581	0	1,826,581
Federal sources	133,826	0	133,826
Total revenues	3,417,572	387,586	3,805,158
EXPENDITURES:			
Current:			
Instruction:			
Regular instruction	1,502,611	3,827	1,506,438
Special instruction	485,542	0	485,542
Other instruction	249,412	93,460	342,872
	2,237,565	97,287	2,334,852
Support services:			
Student services	97,315	0	97,315
Instructional staff services	107,433	0	107,433
Administration services	355,897	0	355,897
Operation and maintenance of plant services	242,306	240,519	482,825
Transportation services	183,114	14,963	198,077
	986,065	255,482	1,241,547
Non-instructional programs	0	3,758	3,758
Other expenditures:			
Facilities acquisitions	0	36,306	36,306
AEA flowthrough	122,030	0	122,030
	122,030	36,306	158,336
Total expenditures	3,345,660	392,833	3,738,493
Excess (deficiency) of revenues over (under) expenditures	71,912	(5,247)	66,665
Other financing sources:			
Sale of equipment	185	0	185
Net change in fund balances	72,097	(5,247)	66,850
Fund balance beginning of year	844,852	183,686	1,028,538
Fund balance end of year	\$ 916,949	178,439	1,095,388

SEE NOTES TO FINANCIAL STATEMENTS.

EAST CENTRAL COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2006

Net change in fund balances - total governmental funds(page 17) \$ 66,850

*Amounts reported for governmental activities in the
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 118,159	
Depreciation expense	<u>(100,771)</u>	17,388

Net change in the Internal Service Funds charged back against expenditures made for self-funded insurance at an entity-wide basis.

1,851

Changes in net assets of governmental activities(page 14)

\$ 86,089

SEE NOTES TO FINANCIAL STATEMENTS.

EAST CENTRAL COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2006

	Business-Type	
	Activities:	
	Enterprise	Governmental
	Fund	Activities:
	School	Internal
	Nutrition	Service
ASSETS		
Cash and pooled investments	\$ 47,327	21,884
Inventories	3,385	0
Capital assets, net of accumulated depreciation	10,553	0
Total assets	61,265	21,884
LIABILITIES		
Salaries and benefits payable	2,452	0
Deferred Revenue:		
Other	1,185	0
Total liabilities	3,637	0
NET ASSETS		
Invested in capital assets, net of related debt	10,553	0
Unrestricted	47,075	21,884
Total net assets	\$ 57,628	21,884

SEE NOTES TO FINANCIAL STATEMENTS.

EAST CENTRAL COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2006

	Business-Type Activities:	
	Enterprise Fund	Governmental Activities:
	School Nutrition	Internal Service
Operating revenue:		
Local sources:		
Charges for services	\$ 86,352	3,716
Operating expenses:		
Non-instructional programs:		
Salaries	55,814	0
Benefits	7,399	1,865
Services	911	0
Supplies	82,785	0
Depreciation	1,478	0
Other	98	0
Total operating expenses	148,485	1,865
Operating income (loss)	(62,133)	1,851
Non-operating revenues:		
State sources	2,312	0
Federal sources	68,075	0
Interest on investments	1,782	0
Total non-operating revenues	72,169	0
Net income	10,036	1,851
Net assets beginning of year	47,592	20,033
Net assets end of year	\$ 57,628	21,884

SEE NOTES TO FINANCIAL STATEMENTS.

EAST CENTRAL COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2006

	Business-Type Activities:	
	Enterprise Fund	Governmental Activities:
	School Nutrition	Internal Service
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 85,780	0
Cash received from miscellaneous operating activities	407	3,716
Cash payments to employees for services	(62,465)	(1,975)
Cash payments to suppliers for goods or services	(71,981)	0
Net cash provided by (used in) operating activities	(48,259)	1,741
Cash flows from non-capital financing activities:		
State grants received	2,312	0
Federal grants received	57,114	0
Net cash provided by non-capital financing activities	59,426	0
Cash flows from capital and related financing activities:		
Purchase of capital assets	(700)	0
Cash flows from investing activities:		
Interest on investments	1,782	0
Net increase in cash and cash equivalents	12,249	1,741
Cash and cash equivalents at beginning of year	35,078	20,143
Cash and cash equivalents at end of year	\$ 47,327	21,884
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ (62,133)	1,851
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Commodities consumed	10,961	0
Depreciation	1,478	0
Decrease in inventories	852	0
Decrease in accounts payable	0	(110)
Increase in salaries and benefits payable	748	0
Decrease in deferred revenue	(165)	0
Net cash provided by (used in) operating activities	\$ (48,259)	1,741
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:		
Current assets:		
Cash and pooled investments	\$ 47,327	21,884

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2006, the District received Federal commodities valued at \$10,961.

SEE NOTES TO FINANCIAL STATEMENTS.

EAST CENTRAL COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

(1) **Summary of Significant Accounting Policies**

The East Central Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the district either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the cities of Miles and Sabula, Iowa, and the predominate agricultural territory in Clinton and Jackson Counties. The district is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, East Central Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The East Central Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Clinton and Jackson Counties Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental fund:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The District reports the following proprietary funds:

The District's proprietary funds are the Enterprise, School Nutrition Fund and the Internal Service Fund. The School Nutrition Fund is used to account for the food service operations of the District. The Internal Service Fund is used to account for the self-funded health insurance plan of the District. The Internal Service Fund is charged back to the Governmental Funds and shown combined in the Statement of Net Assets and Statement of Activities. This chargeback is based upon a percentage of total employees by the participants' various functional areas.

C. Measurement Focus and Basis of Accounting

The government-wide financial statements and the proprietary and fiduciary fund financial statements are reported using the "economic resources measurement focus". The Government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to

customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery, and equipment, are reported in the applicable governmental or business-type activities columns in the Government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 500
Buildings	500
Land improvements	500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	500

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-20 years

Salaries and Benefits Payable - Payroll and related expenditures for annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, expenditures in the support services function exceeded the amount budgeted.

(2) **Cash and Pooled Investments**

The District's deposits in bank at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2006, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Diversified Portfolio	\$ 30,751

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service.

The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. The certificate of deposit is classified as Category 1, which means the investment is insured and held by the District in the District's name. The certificate is stated at fair value.

At June 30, 2006, the District had one Certificate of Deposit maturing over one year as follows:

	Fair Value
Certificate of Deposit	\$ 5,587

(3) Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year, as Restated	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 6,827	0	0	6,827
Total capital assets not being depreciated	6,827	0	0	6,827
Capital assets being depreciated:				
Buildings	1,090,825	42,594	0	1,133,419
Land improvements	395,471	60,597	0	456,068
Machinery and equipment	1,679,940	14,968	830	1,694,078
Total capital assets being depreciated	3,166,236	118,159	830	3,283,565
Less accumulated depreciation for:				
Buildings	835,160	16,334	0	851,494
Land improvements	218,057	16,863	0	234,920
Machinery and equipment	1,494,130	67,574	830	1,560,874
Total accumulated depreciation	2,547,347	100,771	830	2,647,288
Total capital assets being depreciated, net	618,889	17,388	0	636,277
Governmental activities capital assets, net	\$ 625,716	17,388	0	643,104
Business-type activities:				
Machinery and equipment	\$ 33,450	700	0	34,150
Less accumulated depreciation	22,119	1,478	0	23,597
Business-type activities capital assets, net	\$ 11,331	(778)	0	10,553

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 36,396
Other	112
Support services:	
Instructional staff	3,922
Administration	2,615
Operation and maintenance of plant	1,856
Transportation	22,673
	<u>67,574</u>
Unallocated depreciation	<u>33,197</u>
Total governmental activities depreciation expense	<u>\$ 100,771</u>
Business-type activities:	
Food services	<u>\$ 1,478</u>

(4) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005, and 2004. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$114,529, \$113,024, and \$111,385, respectively, equal to the required contributions for each year.

(5) Risk Management

East Central Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(6) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$122,030 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(7) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted expenditures at the functional area level. During the year ended June 30, 2006, expenditures in the support services function exceeded the amount budgeted.

(8) Restatement of Capital Assets

In prior years, the District was not following the years of useful life for depreciation as stated in District capitalization policy but rather the years of useful life that were stated on the appraisal company's fixed asset listing. Upon further inspection of District records, some assets were listed twice and some assets were omitted that should have been included. The following is the restatement of the capital assets and governmental activities net assets.

	Balance Beginning of Year	Increases	Decreases	Balance Beginning of Year, as Restated
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 6,827	0	0	6,827
Total capital assets not being depreciated	6,827	0	0	6,827
Capital assets being depreciated:				
Buildings	1,109,135	0	18,310	1,090,825
Land improvements	373,942	21,529	0	395,471
Machinery and equipment	1,696,062	0	16,122	1,679,940
Total capital assets being depreciated	3,179,139	21,529	34,432	3,166,236
Less accumulated depreciation for:				
Buildings	718,798	116,362	0	835,160
Land improvements	346,132	0	128,075	218,057
Machinery and equipment	1,618,685	0	124,555	1,494,130
Total accumulated depreciation	2,683,615	116,362	252,630	2,547,347
Total capital assets being depreciated, net	495,524	(94,833)	(218,198)	618,889
Governmental activities capital assets, net	\$ 502,351	(94,833)	(218,198)	625,716
Net assets, June 30, 2005, as previously reported				\$ 1,550,922
Net change in capital assets				123,365
Net assets, July 1, 2005, as restated for governmental funds				<u>\$ 1,674,287</u>

REQUIRED SUPPLEMENTARY INFORMATION

EAST CENTRAL COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2006

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 1,844,751	88,134	1,932,885	1,655,006	1,655,006	277,879
Intermediate sources	0	0	0	1,000	1,000	(1,000)
State sources	1,826,581	2,312	1,828,893	2,031,211	2,031,211	(202,318)
Federal sources	133,826	68,075	201,901	190,000	190,000	11,901
Total revenues	3,805,158	158,521	3,963,679	3,877,217	3,877,217	86,462
Expenditures:						
Instruction	2,334,852	0	2,334,852	2,544,449	2,544,449	209,597
Support services	1,241,547	0	1,241,547	1,015,658	1,015,658	(225,889)
Non-instructional programs	3,758	148,485	152,243	158,100	158,100	5,857
Other expenditures	158,336	0	158,336	360,658	360,658	202,322
Total expenditures	3,738,493	148,485	3,886,978	4,078,865	4,078,865	191,887
Excess (deficiency) of revenues over (under) expenditures	66,665	10,036	76,701	(201,648)	(201,648)	278,349
Other financing sources (uses), net	185	0	185	0	0	185
Excess (deficiency) of revenues and other financing sources over (under) expenditures	66,850	10,036	76,886	(201,648)	(201,648)	278,534
Balance beginning of year	1,028,538	47,592	1,076,130	882,122	882,122	194,008
Balance end of year	\$ 1,095,388	57,628	1,153,016	680,474	680,474	472,542

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EAST CENTRAL COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private-Purpose Trust and Agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2006, expenditures in the support services function exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

EAST CENTRAL COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2006

	Special Revenue Funds						
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total Special Revenue	Capital Projects	Total Nonmajor Governmental Funds
ASSETS							
Cash and pooled investments	\$ 35,995	39,885	35,821	21,309	133,010	10,132	143,142
Receivables:							
Property tax:							
Current year delinquent	938	0	918	0	1,856	0	1,856
Succeeding year	81,110	0	30,766	0	111,876	0	111,876
Due from other governments	0	0	0	0	0	49,383	49,383
TOTAL ASSETS	\$ 118,043	39,885	67,505	21,309	246,742	59,515	306,257
LIABILITIES AND FUND EQUITY							
Liabilities:							
Accounts payable	\$ 2,961	183	10,830	0	13,974	0	13,974
Salaries and benefits payable	0	0	0	0	0	1,968	1,968
Deferred revenue:							
Succeeding year property tax	81,110	0	30,766	0	111,876	0	111,876
Total liabilities	84,071	183	41,596	0	125,850	1,968	127,818
Unreserved fund balances	33,972	39,702	25,909	21,309	120,892	57,547	178,439
TOTAL LIABILITIES AND FUND EQUITY	\$ 118,043	39,885	67,505	21,309	246,742	59,515	306,257

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EAST CENTRAL COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2006

	Special Revenue Funds						
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total Special Revenue	Capital Projects	Total Nonmajor Governmental Funds
REVENUES:							
Local sources:							
Local tax	\$ 29,943	0	29,326	0	59,269	221,709	280,978
Other	3,063	100,120	0	3,425	106,608	0	106,608
TOTAL REVENUES	33,006	100,120	29,326	3,425	165,877	221,709	387,586
EXPENDITURES:							
Current:							
Instruction:							
Regular instruction	3,827	0	0	0	3,827	0	3,827
Other instruction	0	93,460	0	0	93,460	0	93,460
Support services:							
Operation and maintenance of plant services	46,014	0	0	0	46,014	194,505	240,519
Transportation services	10,163	0	4,800	0	14,963	0	14,963
Non-instructional programs	0	0	0	3,758	3,758	0	3,758
Other expenditures:							
Facilities acquisitions	0	0	25,291	0	25,291	11,015	36,306
TOTAL EXPENDITURES	60,004	93,460	30,091	3,758	187,313	205,520	392,833
EXCESS(DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES	(26,998)	6,660	(765)	(333)	(21,436)	16,189	(5,247)
FUND BALANCE BEGINNING OF YEAR	60,970	33,042	26,674	21,642	142,328	41,358	183,686
FUND BALANCE END OF YEAR	\$ 33,972	39,702	25,909	21,309	120,892	57,547	178,439

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EAST CENTRAL COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Athletic	\$ 3,970	64,325	60,550	7,745
Girls BB Camp	152	635	731	56
FB Camp	1,264	625	584	1,305
VB Camp	1,072	2,171	1,638	1,605
Softball	112	34	0	146
Concession	0	10,441	10,441	0
Miscellaneous	13,119	7,532	7,617	13,034
Project Grad.	1,164	2,705	2,261	1,608
Speech & Drama	1,536	586	92	2,030
Student Council	770	476	358	888
Student of the Month	132	0	0	132
Student Pictures	0	412	412	0
State Tournament	1,431	86	145	1,372
Class 2008	1,611	0	0	1,611
Class 2007	747	3,134	2,567	1,314
Class 2006	2,676	0	2,602	74
Class 2005	511	0	511	0
Class 2009	0	2,752	1,618	1,134
German	380	0	0	380
Stand Chapter	226	0	0	226
Career Day	261	0	0	261
Middle School	1,908	2,473	1,333	3,048
Activity Interest	0	1,733	0	1,733
Total	\$ 33,042	100,120	93,460	39,702

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EAST CENTRAL COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS
 EXPENDABLE TRUST FUNDS
 YEAR ENDED JUNE 30, 2006

Expendable Trust Funds	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Wosoba Scholarship	\$ 6,756	191	100	6,847
Nelson Scholarship	5,146	158	300	5,004
Wilcke Scholarship	2,852	35	2,887	0
Keil Scholarship	323	11	0	334
Treloar Scholarship	3,258	2,900	471	5,687
Wiese Scholarship	1,663	66	0	1,729
Gray Scholarship	1,644	64	0	1,708
Total	\$ 21,642	3,425	3,758	21,309

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EAST CENTRAL COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

		Modified Accrual Basis			
		Years Ended June 30,			
		2006	2005	2004	2003
Revenues:					
Local sources:					
Local tax	\$	1,517,353	1,477,448	1,522,638	1,403,774
Tuition		137,127	119,026	146,690	153,254
Other		190,271	153,067	190,189	157,088
Intermediate sources		0	0	91	85
State sources		1,826,581	1,777,127	1,791,963	1,813,811
Federal sources		133,826	152,006	295,677	279,234
Total	\$	3,805,158	3,678,674	3,947,248	3,807,246
Expenditures:					
Current:					
Instruction:					
Regular instruction	\$	1,506,438	1,510,285	1,457,712	1,350,625
Special instruction		485,542	508,382	525,033	504,593
Other instruction		342,872	295,904	297,170	393,278
Support services:					
Student services		97,315	97,504	94,974	88,163
Instructional staff services		107,433	59,575	97,051	146,858
Administration services		355,897	332,769	307,041	360,919
Operation and maintenance of plant services		482,825	262,212	233,996	225,141
Transportation services		198,077	181,373	202,919	177,285
Non-instructional programs		3,758	0	0	87,062
Other expenditures:					
Facilities acquisitions		36,306	253,025	107,064	149,380
AEA flow-through		122,030	120,862	123,726	132,244
Total	\$	3,738,493	3,621,891	3,446,686	3,615,548

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and
on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Education of the
East Central Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of East Central Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated September 8, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered East Central Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-06 is a material weakness.

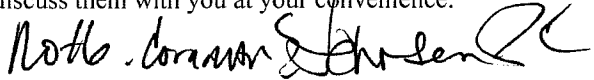
Compliance and Other Matters

As part of obtaining reasonable assurance about whether East Central Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of East Central Community School District and other parties to whom East Central Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of East Central Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

September 8, 2006

EAST CENTRAL COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006

Part I: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

- I-A-06 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the District should review its procedures to obtain the maximum internal control possible under the circumstances.

Response - We will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

- I-B-06 Appraisal Fee - We noted during the audit that the fixed assets appraisal cost of \$2,500 was not repaid to the Management Fund from the fiscal 2004 year.

Recommendation - The District should transfer \$2,500 from the General Fund to the Management Fund to pay for the fixed assets appraisal.

Response - We will comply with this recommendation.

Conclusion - Response acknowledged. The District has stated they would comply with the recommendation for the corrective transfer the previous two years and still has not done so.

- I-C-06 Student Activity Fund - We noted during our audit that the Student Activity Fund included an interest account. We also noted during our audit that the District wrote checks to individual students in the Student Activity Fund for after prom prizes and scholarships. According to the Uniform Accounting Manual for the Department of Education, no funds from a student organization may be distributed to individual students.

Recommendation - The interest earned each year should be allocated at least on an annual basis to the individual activity accounts.

The District should review procedures in place to ensure no checks are written to individual students. Checks for scholarships should be written in the name of the student and the university the student is attending once the student has presented documentation to the school.

Response - We will correct procedures for scholarships and interest will be allocated on an annual basis.

Conclusion - Response accepted.

EAST CENTRAL COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006

Part II: Other Findings Related to Statutory Reporting

- II-A-06 Certified Budget - District expenditures for the year ended June 30, 2006 exceeded the amount budgeted in the support services functional area.

Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response – The budget was exceeded due to realignment of account codes at the end of the year by the state. In the future, the budget will be amended as necessary.

Conclusion – Response accepted.

- II-B-06 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted. We did note there was insufficient detail on receipts for reimbursement to determine if procedures were handled properly.

Recommendation - The District should review procedures to make sure reimbursements are made to persons who have sufficient detail on travel receipts.

Response - We will correct procedures.

Conclusion - Response accepted.

- II-D-06 Business Transactions - No business transactions between the District and District officials were noted.

- II-E-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

- II-F-06 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

- II-G-06 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

- II-H-06 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

- II-I-06 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.